

Financial Literacy with Mr. 401(k)
[‘FinLit with Mr. 401(k)’]
Winter Term 2023-2024
February 26, 2024

The Future Class 29: Putting it All Together



Wednesday: Money Mavericks Workgroup Business Plan Presentations



Alpha

Babysitting /
Childcare
Services



Beta

App that
Recommends and
Markets Books to
Users



Gamma

Online Sales of
Sporting Apparel
& Goods,
Focusing on
Footwear



Delta

Digital Content
Creator AI
Support

Monday Money Matter\$

Today, Amazon joins the Dow Jones Industrial Average, replacing Walgreens Boots Alliance. The Dow Jones Industrial Average is a 127-year-old stock index, composed of 30 companies. Unlike the S&P 500 Index, the Dow Jones Industrial Average is weighted by the share price of the stocks, instead of the companies' total market value. Over the past 12 months, the S&P 500 Index is up 28%, whereas the Dow Jones Industrial Average is up 19%.

Reference Date: February 26, 2024

Source: <https://www.cnbc.com/2024/02/26/amazon-joins-the-dow-giving-the-127-year-old-index-a-needed-upgrade.html>

**The transfer of value today,
in exchange for what
someone expects to have
greater value in the future.**

Recap: Investing



Class Discussion

How might a young person attain a financial objective to accumulate \$100,000 in portfolio within 20 years?

The Young Investor's Dilemma



How to Begin?

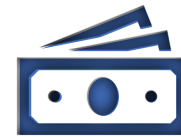
To transfer value today, investors need some money to get started. Young people go to school. Young people do not have much money. So, how can young people start investing?



Getting Money

Only three ways:

- 1) Sell stuff for it -- trade assets for cash,
- 2) Borrow it -- increase your liabilities, or
- 3) Make it -- generate income.



Income Types

- 1) Earned income = work to make money
- 2) Passive income = assets can make money
- 3) Portfolio income = asset appreciation can make money



Earning Income

Generally, young people do not own assets to generate portfolio income, nor assets that generate passive income. So, how can young people earn income when they are still students?

Recap: Teenager Earned Income Ideas



BABYSITTER



CONTENT
CREATOR



DOG WALKER



FAST FOOD
WORKER



GRAPHIC
DESIGNER



LIFEGUARD



OFFICE
WORKER



PET SITTER



TUTOR



YARD
WORKER



VIDEO GAMER



Class Discussion

*Can you think
of other jobs or
work that
teenagers could
do to earn
money?*

Recap: Teenager Earned Income Ideas



Recap: Two Earned Income Examples



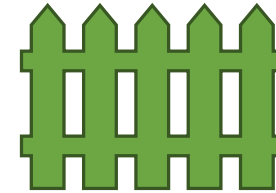
Babysitter

1 child: \$20 / hour; 2+ children: \$25 / hour

1 evening / week for 5 hours @ \$22 / hour =

\$5,720

gross income per year



Yard Worker

\$20 / hour; \$40 / mow

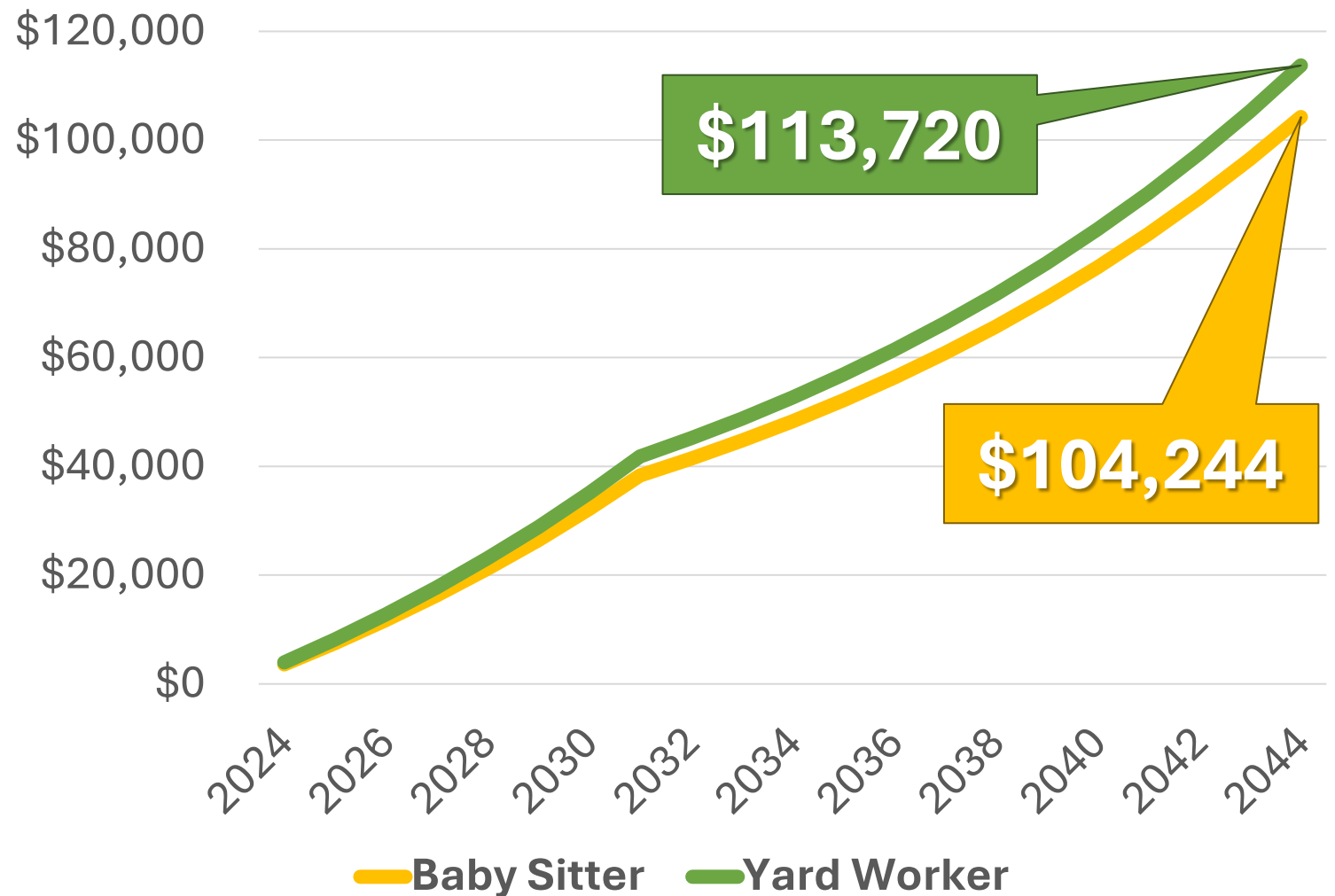
1 day / week for 6 hours @ \$20 / hour =

\$6,240

gross income per year

Do the work for 8 years. Invest 70% of after-tax income in an S&P 500 Index Fund (Ex. Ticker: SPY). Estimate a 10% tax rate. Spend the rest on your needs or wants.

Hypothetical growth after 20 years assuming 8% annually compounded investment returns





Class Discussion

What might be some benefits to selecting an S&P 500 Index Fund, rather than building a portfolio of individual stocks and bonds? Can you think of any limitations to an S&P 500 Index Fund?

S&P 500 Index Fund Benefits and Limitations

Benefits

- Mitigates single asset risks through diversification across hundreds of U.S. large company stocks
- Updates automatically when companies are added to or removed from the S&P 500 Index
- Very low operating expenses

Limitations

- It excludes bonds and other non-stock investments
- Excludes international company stocks
- Excludes small and mid size company stocks
- Weights towards the largest of the large U.S. companies

Revolving credit, is a type of loan that allows you to borrow up to a limit, repay it, and then borrow again, continuously, without needing to reapply each time.

Revolving Credit



Class Discussion

Can you think of any examples of revolving credit?

Practical Application



- A teenager gets a credit card with a \$1,000 balance limit.
- The interest rate is 20% annually. The credit card requires a minimum monthly payment of \$20 or 2% of the balance outstanding, whichever is greater.
- The teenager purchases clothes and electronics on the credit card, building up a \$1,000 credit card balance.
- “\$20 per month is nothing,” thinks the teenager, who makes the \$20 minimum monthly payment until the credit card balance is paid off.



Class Discussion

Do you think this was this a good decision? Could the teenager have made better choices?

Practical Application



- It takes over 9 years to pay off the credit card.
- By the time the credit card balance is paid off, the teenager is an adult, the clothes purchased are out of style and the electronics are obsolete.
- The teenager made total payments of \$2,168 of which \$1,168 was interest expense.
- Interest expense to the teenager was income to the credit card company.

Month #	Starting Balance	Interest Charged	Minimum Payment	Ending Balance
1	\$1,000.00	\$16.67 <small>(\$1,000 x 20% / 12)</small>	\$20	\$996.67
2	\$996.67	\$16.61 <small>(996.67 x 20% / 12)</small>	\$20	\$993.28
3	\$993.28	\$16.55 <small>(993.28 x 20% / 12)</small>	\$20	\$989.87
...
109	\$7.89	\$0.13 <small>(7.89 x 20% / 12)</small>	\$8.02	\$0.00

Practical Application



1. Credit card payments **first** pay the interest expense

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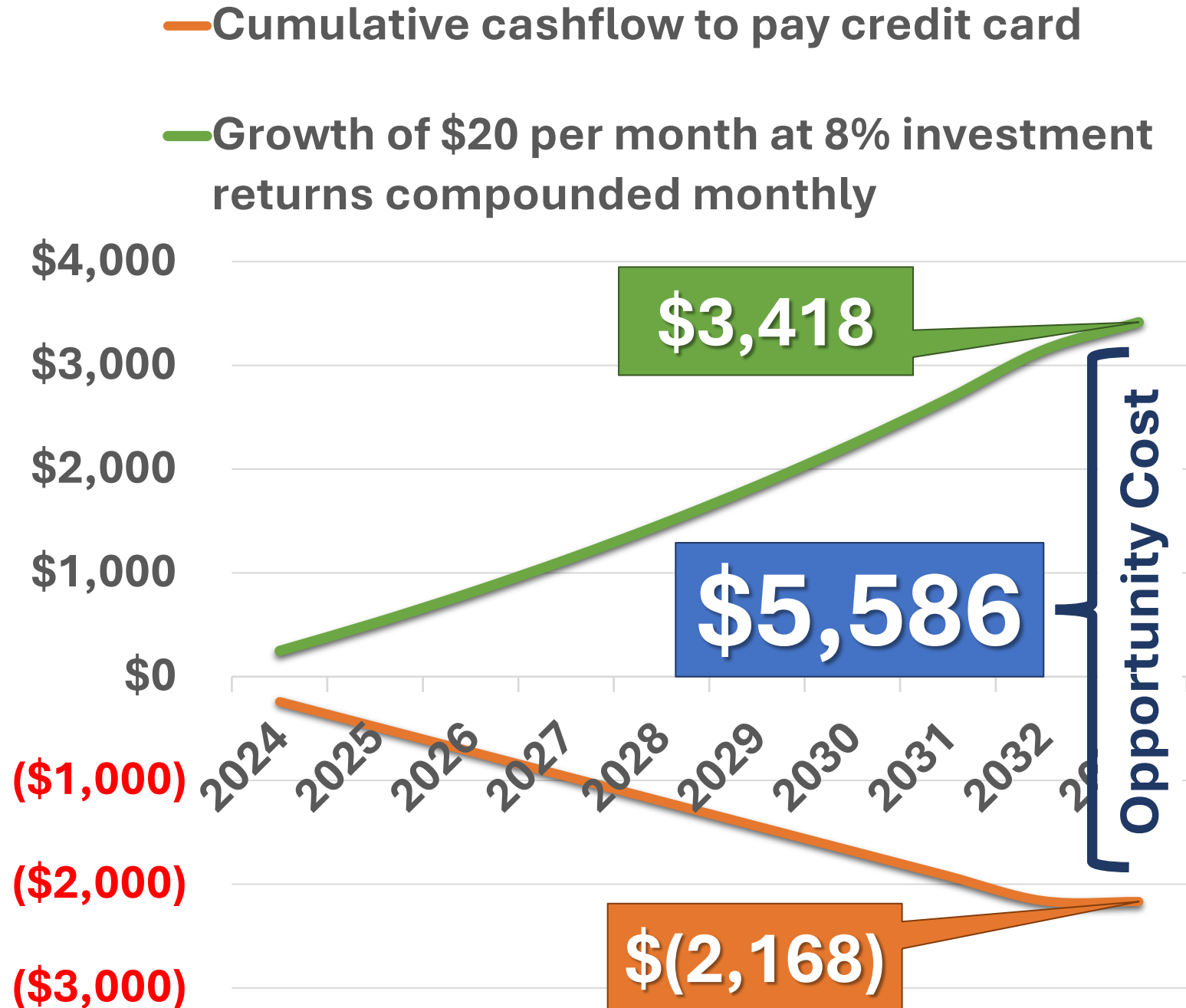
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3. Balances can take **years to payoff** if making only a minimum payment

Now, let's consider the opportunity cost!

How might it have turned out if the teenager invested \$20 per month instead of building credit card debt?



Don't Become Passive Income to the Bankers!

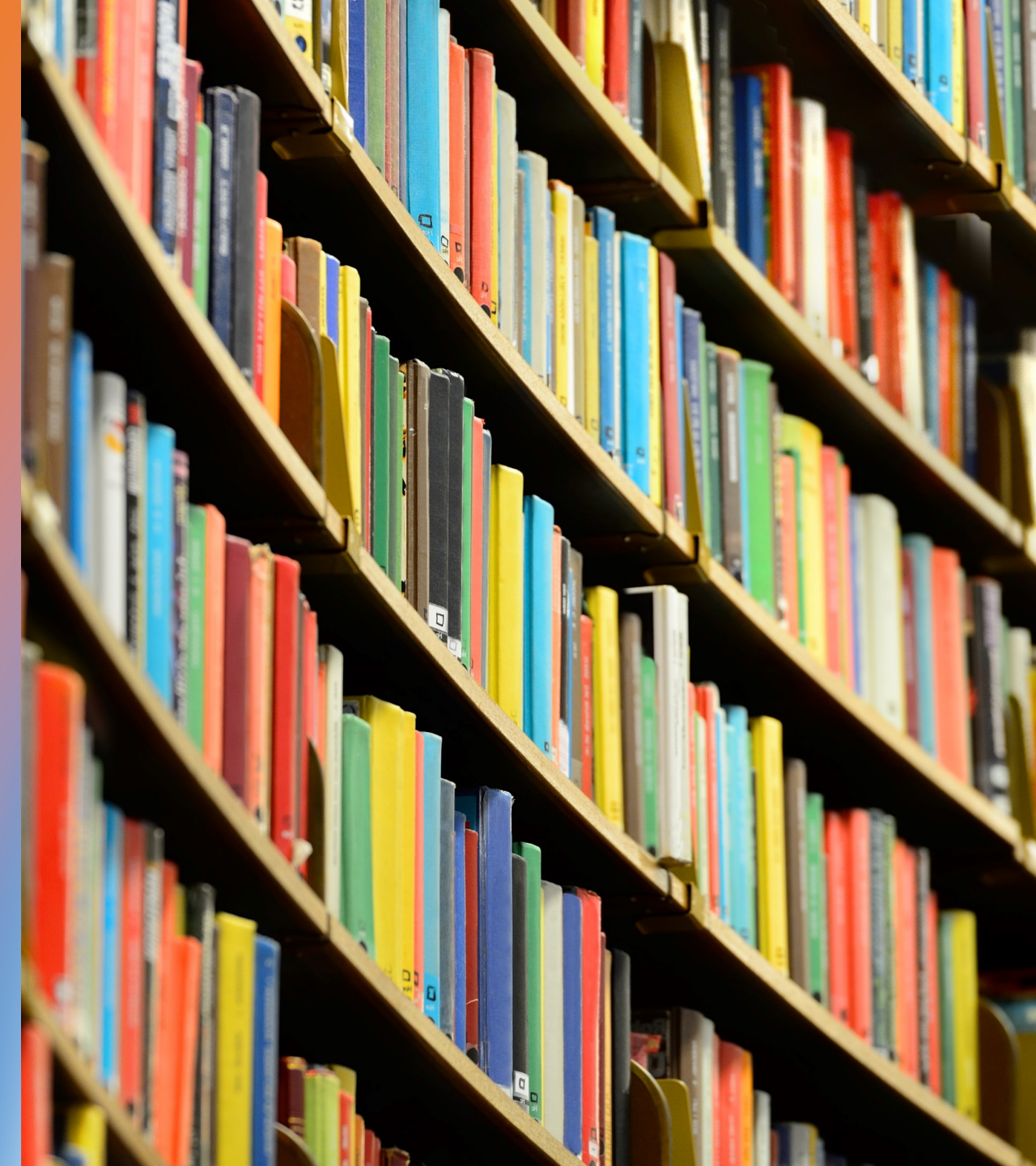
When people carry credit card balances, they pay very high interest expense. People who pay credit card interest become passive income to banks. Think about it –the “credit” on your credit card is a bank’s asset. The bank is making money from you off its asset!





Three Key Takeaways

1. There are plenty of ways for young people to earn money – find what works for you and do it!
2. Investing some of what you earn is a great way to build long-term wealth.
3. Credit card debt is the worst form of debt because interest rates are very high, so only banks can profit from it – don't make banks wealthier!



Where to Learn More

- [Financial Literacy for Young Adults Simplified: Discover How to Manage, Save, and Invest Money to Build a Secure & Independent Future](#) by Raman Keane
- [Rich Dad Poor Dad for Teens: The Secrets About Money - That You Don't Learn in School](#) by Robert T. Kiyosaki
- [Smart Money Habits For Teens And Young Adults: How to Survive Recession and Achieve Financial Independence With Smart Budgeting, Debt Management, and Investing](#) by Ward Nash